



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

December 16, 2003

The Honorable Calvin K.Y. Say, Speaker
and Members of the House of Representatives
Twenty-Second State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear Mr. Speaker and Members of the House:

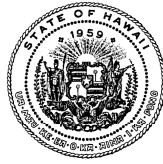
For your information and consideration, I am transmitting herewith two (2) copies of the Hawaii Employer-Union Health Benefits Trust Fund's Annual Report for fiscal year ending June 30, 2003. Pursuant to Act 231, SLH 2001, I am also informing you that the report may be viewed electronically at www.hawaii.gov/budget/LegReports/reportslist.

Sincerely,

/s/

LINDA LINGLE

Enclosures



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

December 16, 2003

The Honorable Robert Bunda, President
and Members of the Senate
Twenty-Second State Legislature
State Capitol, Room 003
Honolulu, Hawaii 96813

Dear Mr. Speaker and Members of the Senate:

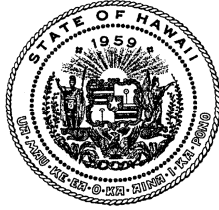
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ANNUAL REPORT

FISCAL YEAR 2002-03

**Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii**

December 2003

This report presents an overview of the activities of the Hawaii Employer-Union Health Benefits Trust Fund ("Trust Fund"). The Trust Fund is administratively attached to the Department of Budget and Finance. The Trust Fund's office is located at Suite 1520, City Financial Tower, 201 Merchant Street, Honolulu, Hawaii.

OVERVIEW

The Trust Fund was created by Act 88, 2001 Session Laws of Hawaii ("SLH"). The Trust Fund replaced the Hawaii Public Employees Health Fund ("PEHF"), effective July 1, 2003. The Trust Fund was established to provide a single health benefits delivery system for State and County employees, retirees, and their dependents. The purpose of combining all public employees, retirees, and their dependents into a single health benefits program was, among other things, to increase leverage for purposes of negotiating with health insurance carriers, to decrease administrative costs by consolidating administrative functions and creating economies of scale, and to otherwise address the spiraling cost of health and other benefit plans.

Act 88, 2001 SLH, enacted major changes in the administration of the public employee health plans. Some of the significant changes are:

- A defined contribution plan for retirees with capped employer contributions that are adjusted annually based upon changes in Medicare Part B premium amounts.
- Public employers' contributions for active employees are a specific dollar amount as negotiated through collective bargaining.
- Employees who were hired on or after July 1, 2001 will receive an employer contribution for only the employee's coverage upon retirement.
- The Board of Trustees has equal representation of public employer and employee-beneficiary trustees, including a retiree representative.
- The retention of auditors, actuaries, investment firms and managers, benefit plan consultants, or other professional advisors to carry out the purpose of the fund is exempt from Chapter 103D, HRS, and procurement requirements.
- The Trust Fund Administrator and new staff positions are exempt from civil service.
- The monthly premiums for benefit plans include the administrative expenses of the Trust Fund.

TRUST FUND ORGANIZATION

Board of Trustees

The Trust Fund is administered by a board of trustees ("Board"). The Board is responsible for determining the nature and scope of the benefit plans offered, negotiating and entering into contracts with insurance carriers, establishing eligibility and management policies for the Trust Fund, and overseeing all Trust Fund activities.

There are ten trustees, five representing the public employers and five representing employee-beneficiaries. The current trustees are shown below:

Employer Trustees

- Bob Awana
- Harold DeCosta
- Mark Recktenwald
- Katherine Thomason
- Kathleen Watanabe

Employee-Beneficiary Trustees

- Joan Lewis, HSTA
- Gerald Machida, Retirees
- Willard Miyake, HGEA
- Dayton Nakanelua, UPW
- John Radcliffe, UHPA

Board officers are currently Will Miyake as Chair, Joan Lewis as Vice-Chair and Bob Awana as Secretary-Treasurer. The officers are changed every July 1.

During the time period covered by this report, the Board has used both standing and temporary committees to facilitate its administration of the Trust Fund. The two standing committees are the Administrative Committee and the Benefits Committee. The Administrative Committee considers matters pertaining to the administration and operation of the Trust Fund, e.g., development of budget, organization of staff, setting of personnel policies, evaluation of Trust Fund systems, and consideration of use of third party administration services. The Benefits Committee considers matters pertaining to the design and procurement of the Trust Fund's health and other benefit plans (discussed below). One of the more important temporary committees was the Rules Committee, which formulated the administrative rules for the Trust Fund (discussed below).

Administrator and Staff

The day-to-day administration of the Trust Fund is managed by an administrator who reports to and is responsible to the Board. The administrator is H. Mark Fukuhara. Mr. Fukuhara was hired in July 2002 after a lengthy selection process conducted by the Board and its Administrative Committee.

The administrator is assisted in managing the Trust Fund by an assistant administrator, a financial management officer, a communications and regulatory specialist, and an information systems analyst. Other staff includes fourteen full-

time civil service positions that were transferred from the PEHF to the Trust Fund, effective July 1, 2003. The Trust Fund is in the process of reorganizing the staff to make the Trust Fund more customer-service friendly. This includes training some of the staff to answer questions from and provide information directly to Trust Fund participants. This service was previously provided under the various union plans but was generally not provided by the PEHF.

Consultants and Advisors

The Board issued a request for proposal for a benefits plan consultant in April 2002. After reviewing several proposals, the Board chose Garner Consulting as its benefits plan consultant in June 2002. Garner Consulting was founded in 1987 and is based in Pasadena, California. Garner Consulting is a nationally recognized consulting firm specializing in employee benefit issues. Garner Consulting is a consultant to numerous public and private sector employers across the United States including the Automobile Club of Southern California, the County of Los Angeles, Firefighters Local 1014 (Los Angeles County), Marriott International and U-Haul.

The Board has also employed professional consultants and advisors on certain specific issues of importance to the Trust Fund. In this respect, the Board employed the Gartner Group, a computer services consulting firm, to evaluate the computer systems used by the PEHF to determine if they were sufficient to handle the Trust Fund's first open enrollment and to analyze its capabilities for future Trust Fund operations.

ADMINISTRATIVE RULES

The Trust Fund adopted administrative rules on February 19, 2003. The administrative rules were developed by the Trust Fund's Board and Rules Committee through a process that involved extensive public input and consultation with both public employers and affected employee organizations. Drafts of each rule were reviewed and discussed at public meetings of the Rules Committee. An initial and a revised set of the administrative rules were circulated to public employers and affected employee organizations for their review and comments.

The administrative rules were formulated to meet the requirements of Chapter 87A, Hawaii Revised Statutes, and the health and other benefit plans established by the Trust Fund. In addition, they were designed to increase administrative efficiencies and reduce the Trust Fund's administrative costs. For example, the rules set the effective dates for initial enrollments, changes in enrollment, and cancellations of enrollment in the Trust Fund's health benefit plans so as to facilitate automated handling of such activities. In contrast, the PEHF's rules required such activities to be manually handled which was time consuming and increased the PEHF's administrative costs.

HEALTH AND LIFE INSURANCE BENEFIT PLANS

While it was in the process of procuring a benefits plan consultant, the Trust Fund's Benefits Committee educated itself as to health and other employee benefit plan issues. It obtained information about the existing public employee health benefit plans and the demographics of the Trust Fund's members. It invited private sector employers and public employee unions to provide information as to their employee health and other benefit plans and current employee benefit issues.

After procuring Garner Consulting and with its assistance, the Trust Fund's Board and Benefits Committee developed and established the Trust Fund's health and life insurance benefit plans through a step-by-step process that involved both public input and consultation with the public employers and affected employee organizations.

Initially, the Benefits Committee considered certain key issues and decisions, e.g., the possible use of self-funding, health reimbursement accounts, and a managed competition approach. The Benefits Committee then considered basic structural issues for the Trust Fund's health and other benefit plans. These included issues such as the use of cafeteria plans, the bundling of medical and prescription drug plans, and the possible use of different multi-tier rate structures (two-tier structure for single and family versus multi-tier structures involving three or four tiers). The Benefits Committee then worked on the specifics of the health and other benefit plans that it would request proposals for under a request for proposal. The Committee looked at co-payment issues, lifetime maximum issues, and specifically went through the types of procedures that would be covered or excluded under the Trust Fund's plans. The recommendations of the Benefits Committee on these issues were considered by the Board at a public meeting and after opportunity for comment had been afforded to the public employers and exclusive employee representative organizations.

The Board issued a request for proposal for health benefit and life insurance plans in September 2002. The request for proposal requested a fairly broad range of plans for consideration by the Board. For various reasons, the Board was unable to review the insurance carrier proposals received until early 2003. In March 2003, the Board awarded contracts to: (a) HMSA for a PPO medical and prescription drug plan; (b) Kaiser Permanente for an HMO medical and prescription drug plan; (c) Hawaii Dental Service for a regular and dual-coverage dental plan; (d) Vision Service Plan for a regular and dual-coverage vision care plan; (e) Mutual Benefit Association of Hawaii for a chiropractic plan; (f) Royal State National Insurance Company for a dual-coverage medical plan; and (g) Aetna Life Insurance Company for a life insurance plan. Subsequently, due to the outcome of collective bargaining between the public employers and exclusive

employee representative organizations, the carrier for the proposed dual-coverage medical plan withdrew its proposal.

For active employees, the health benefit plans offered by the Trust Fund are generally richer than those previously provided by the PEHF. The annual out-of-pocket expenses under HMSA's medical plan are reduced and the annual maximum is increased. The dental plan includes orthodontia benefits, increases the maximum benefit to \$2,000 per person per calendar year and improves the benefit percentage for minor restorative services. A chiropractic plan, previously available only under employee organization plans, is now included as a bundle with the HMSA and Kaiser medical and prescription drug plans.

For retirees, the health benefit plans offered by the Trust Fund are generally the same as those previously provided by the PEHF. The HMSA medical plan was changed to an actuarially equivalent preferred provider plan with a higher lifetime maximum benefit.

For both active employees and retirees, the health benefit plans are available to domestic partners and full-time students up to the age of 24. No additional premium is required for student coverage; they are covered in the family option. The co-payment per visit under the Kaiser HMO medical plan increased from \$8 to \$10. Life insurance benefits have been modestly increased without an increase in premiums.

The Trust Fund's rates are lower than the premium rates quoted for the PEHF had it continued for another year, although, since those rates were never negotiated or finalized, total savings cannot be calculated. Eliminating the multiple plans did generate administrative savings from the carriers, which are estimated to total approximately \$2 million in the first year. Finally, it should be noted that the contracts that the Trust Fund negotiated with its insurance carriers are multi-year contracts which limit the amount of future rate increases and provide for the return of premiums dependent on the Trust Fund's claims experience.

OPERATIONS

The Trust Fund's major job in 2003 was conducting its first open enrollment for all public employees, retirees and their dependents. Ultimately, the first open enrollment involved approximately 199,000 public employees, retirees and dependents.

There were significant problems during the open enrollment. There were delays in scheduling open enrollment information sessions, several of these sessions were overcrowded, heavy phone call volumes resulted in many calls not being answered and delays in returning calls, and enrollment forms were not always processed accurately or efficiently. In part these problems were due to: (a) the

short time to prepare for enrollment between the Trust Fund's award of contracts to insurance carriers and the open enrollment; (b) the heavy workload in re-enrolling all 64,000 active employees; (c) unexpected heavy attendance at open enrollment information sessions; (d) the lack of Trust Fund personnel to handle phone calls and process enrollment forms; and (e) the inability of the Trust Fund's phone and other systems to handle the heavy volume of incoming phone calls and enrollment forms.

Lessons were learned from this experience and the Trust Fund is implementing changes so that these problems won't recur, e.g., new phone and imaging systems. The new phone system distributes incoming calls to available staff and also provides the flexibility to add more staff to receive calls when volumes are high or wait times exceed acceptable limits. All documents are imaged within 24 hours of receipt which allows immediate retrieval and determination of the status of a particular document. In addition, with the transfer of PEHF staff positions, there will be more Trust Fund personnel to handle the next open enrollment period.

FISCAL YEAR 2003

The total budget for FY 2003 was \$1,783,659 from trust fund appropriations. Expenditures totaled \$1,013,752 and the balance of \$769,907 was carried over to FY 2004. Expenditures for FY 2003 included: \$394,392 for personnel services, \$78,124 for services rendered by other departments, \$22,740 for postage, \$15,600 for transportation intrastate, \$63,393 for public officials liability, fiduciary liability and fidelity bond insurance for trustees, \$351,280 for consultant services such as Garner Consulting (\$190,000) and eWorld (\$161,280), \$50,000 for office renovations and \$38,223 for miscellaneous expenses such as office supplies, telephone, copier rental and equipment.

In addition, \$120,000 in general fund appropriations was carried over from FY 2002. These general funds were to be used to renovate new office space and purchase new office equipment. However, due to delays in executing our office lease, the \$120,000 was used as follows: \$97,431 for printing of the benefit booklets for open enrollment, \$17,935 for computer hardware/software, and \$3,265 for an LCD projector. The balance of \$1,369 went back into the State Treasury account.

An annual audit will be conducted after benefit plans have been offered by the Trust Fund. The first audit will be conducted in 2004 for the plan year July 1, 2003 through June 30, 2004.